

25X1

Approved For Release 2005/01/10 : CIA-RDP86T00608R000500200014-1

Approved For Release 2005/01/10 : CIA-RDP86T00608R000500200014-1

Secret



Intelligence Report

OPEC Disbursements of Economic Assistance to Less Developed Countries, 1974

Secret

ER IR 75-13
May 1975

Copy **N⁰**

78

25X1

Approved For Release 2005/01/10 : CIA-RDP86T00608R000500200014-1

Approved For Release 2005/01/10 : CIA-RDP86T00608R000500200014-1

Secret

25X1



OPEC Disbursements
of Economic Assistance
to Less Developed Countries,
1974

KEY JUDGMENTS

OPEC members, led by Saudi Arabia, enormously increased their aid effort during 1974. These nations transferred about US \$4.8 billion in official aid to the LDCs and multilateral agencies, more than double their 1973 aid. This aid offset about 6% of OPEC's \$84 billion trade surplus. Most of this help moved via bilateral programs, although transfers to multilateral institutions are building rapidly. The data show that

- Egypt, Syria, and Pakistan received the lion's share of bilateral deliveries;
- the Most Seriously Affected countries (MSAs) received a larger share of OPEC funds than of flows from the industrial countries;
- the great bulk of aid was transferred in cash for current balance-of-payments support;
- the terms of OPEC bilateral deliveries were generous, with grants making up about two-thirds; and
- disbursements on "commercial" terms through the IMF Oil Facility dominated OPEC's multilateral effort.

OPEC aid transfers will probably increase to at least \$6 billion in 1975, offsetting some 10% of the expected OPEC trade surplus, mainly as the result of growing transfers to the IMF Oil Facility. Disbursements of bilateral aid will come largely from prior commitments to Arab countries. Except for Saudi Arabia and Kuwait, the OPEC countries, viewing their large trade surplus as temporary, are unlikely to provide much new concessionary aid.

Note: Comments and queries regarding this report are welcomed. They may be directed to [redacted] of the Office of Economic Research, [redacted]

Secret

May 1975

Secret

DISCUSSION

Introduction

1. This report analyzes transfers of economic aid from OPEC¹ members to the less developed countries (LDCs)² during 1974. It identifies the kinds of flows and relates them to emerging institutional arrangements. Aid transferred directly from an OPEC country to individual LDCs is the major focus, although aid flowing to multilateral agencies also is considered. Bilateral disbursements include

- all cash transfers made either directly to the LDC or to a third country for LDC drawing,
- direct cash transfers to the LDCs for military expenditures because these payments may be diverted to other purposes upon entering LDC coffers, and
- deferred payments or grants to cover oil purchases.

The data exclude (a) all private export credits, whether or not they are publicly guaranteed, and (b) portfolio investments, except for OPEC funding of the International Monetary Fund (IMF) Oil Facility, which may be so classified.

25X1

25X1

Magnitude of Aid

2. OPEC transfers of economic aid approximated \$4.8 billion in 1974 (see Table 1).³ Nearly all of these flows went as cash payments either directly to the LDCs, to their accounts in third countries, or to multilateral agencies. These flows absorbed 6% of OPEC's combined trade surplus last year. Aid to multilateral institutions – previously a minor regional effort – registered the most dramatic rise, although bilateral disbursements accounted for more than 60% of the total.

1. The members of OPEC (the Organization of Petroleum Exporting Countries) are Algeria, Ecuador, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, Abu Dhabi (United Arab Emirates), and Venezuela.

2. The LDCs include all countries of Africa except the Republic of South Africa; all countries of East Asia except Hong Kong and Japan; Malta, Portugal, Spain, and Yugoslavia in Europe; and all countries in Latin America, the Near East, and South Asia.

3. For Tables 1 through 15, see the Appendix.

Secret

OPEC's share of the global aid effort increased sharply, making up 25% of total aid flows from all official sources (see the tabulation), from less than 15% in 1973. As a group, OPEC far surpassed other major donors in the share of their GNP devoted to such aid, transferring 4% of their combined GNP to LDCs, compared with less than 1% for Development Assistance Committee (DAC) countries.⁴ However, vast differences in per capita GNP, stages of development, and absorptive capacity among OPEC members are important to this comparison.

	Million US \$
Total	21,100 ¹
DAC	14,000
OPEC	4,800 ²
Communist	2,000
Other	300

1. Including estimates of official aid disbursed bilaterally to LDCs as well as to multilateral institutions.

2. Excluding \$800 million in OPEC transfers to the IMF Oil Facility for developed countries.

25X1

Bilateral Aid

3. Members of OPEC disbursed about \$3.0 billion to 35 LDCs last year (see Table 2),⁵ up from an estimated \$2.0 billion in 1973 and less than \$900 million annually during 1970-72. Disbursements represented only about one-third of new commitments, which surged to \$8.6 billion in 1974 (see Table 3 and the tabulation). King Faysal freely wielded the use of financial assistance for political

Million US \$

	Commitments	Disbursements
Total	24,660	15,250 ¹
DAC	12,330	10,000
OPEC	8,620	3,000
Communist	2,570	2,000
Other	1,150	250

1. Including disbursements from aid that was committed and in the pipeline prior to 1974.

purposes. Buoyed by a current account surplus of \$26 billion, Saudi Arabia was by far the largest donor – accounting for 40% of all OPEC aid transfers. Saudi Arabia, Kuwait, and Abu Dhabi accounted for nearly three-fourths of OPEC bilateral transfers in 1974. Only Iraq delivered more than one-half of its 1974 commitments (see Figure 1) – mainly as oil subsidies. Of the rest, Kuwait, Libya,

4. The DAC members are 12 nations of Western Europe and Australia, Canada, Japan, New Zealand, and the United States.

5. For a breakdown of individual OPEC country bilateral transfers, see Tables 4 through 13.

Secret

OPEC:

Bilateral Economic Aid to the LDCs, 1974

Pledges vs Disbursements

FIGURE 1

Million US\$

3,000 •

Saudi
Arabia

2,500 •

TOTAL Billion US\$

\$8.6

Pledges

\$3.0

Disbursements

2,000 •

Iran

1,500 •

Abu
Dhabi
(UAE)

Kuwait

1,000 •

500 •

Iraq

Qatar

Libya

Other

0 •



505578 4-75 CIA

25X1

Secret

and Saudi Arabia transferred more than 40% of their 1974 commitments; these nations also were the largest donors within OPEC prior to 1974.

4. About 85% of OPEC disbursements went to Moslem nations. Egypt, Syria, and Pakistan received 65% of the total (see Figure 2). Although OPEC pledges to the MSAs⁶ were 15% below DAC pledges, their utilization was rapid because of emphasis on emergency uses. OPEC transfers reached \$1.0 billion, mainly to Moslem MSAs, and accounted for about 40% of total disbursements to the MSAs in 1974. Iran provided more than one-third of the OPEC total for these countries. Oil subsidies, which contributed \$200 million to a few MSAs, usually covered only one-half or less of newly quadrupled oil prices. This aid compares with a \$1.5 billion increase in the MSAs' 1974 oil import bill.

Character of Aid

5. Some \$2.7 billion in OPEC bilateral flows, or 90% of the total, was spent for emergency uses (see Table 14). Nearly all were in cash, except for some \$230 million in oil subsidies. War reconstruction aid to the Arab belligerent states took \$1.4 billion, or nearly one-half of the OPEC total. Little recovery aid has been designated for specific projects and presumably may be diverted to cover current account deficits. An additional \$54 million in disaster relief was delivered to the Sahel countries and Bangladesh.

6. OPEC disbursements not only were primarily of an emergency nature but also were highly concessional. Outright grants, virtually all on an untied basis,⁷ accounted for roughly two-thirds of total OPEC bilateral flows. This proportion compares with a 45% grant share for DAC flows. Abu Dhabi, Kuwait, and Saudi Arabia provided about three-fourths of their disbursements on a grant basis, largely in response to the urgent needs of the Arab belligerents. By contrast, Iran - Moslem but not Arab - focused on the requirements of other LDCs. Led by the Shah's penchant for good investments, Tehran extracted the hardest terms - with only 3% of its aid going as outright grants.

7. Transfers designated for specific projects absorbed only 10% of the total, which was probably just as well considering the urgent need of the LDCs to conserve

6. The United Nations has identified 33 countries as being most seriously affected by increases in the price of essential imports. Criteria include per capita income below \$400, sharp increase in import costs of essentials relative to export earnings, high ratio of debt service to export earnings, and low level of foreign exchange reserves.

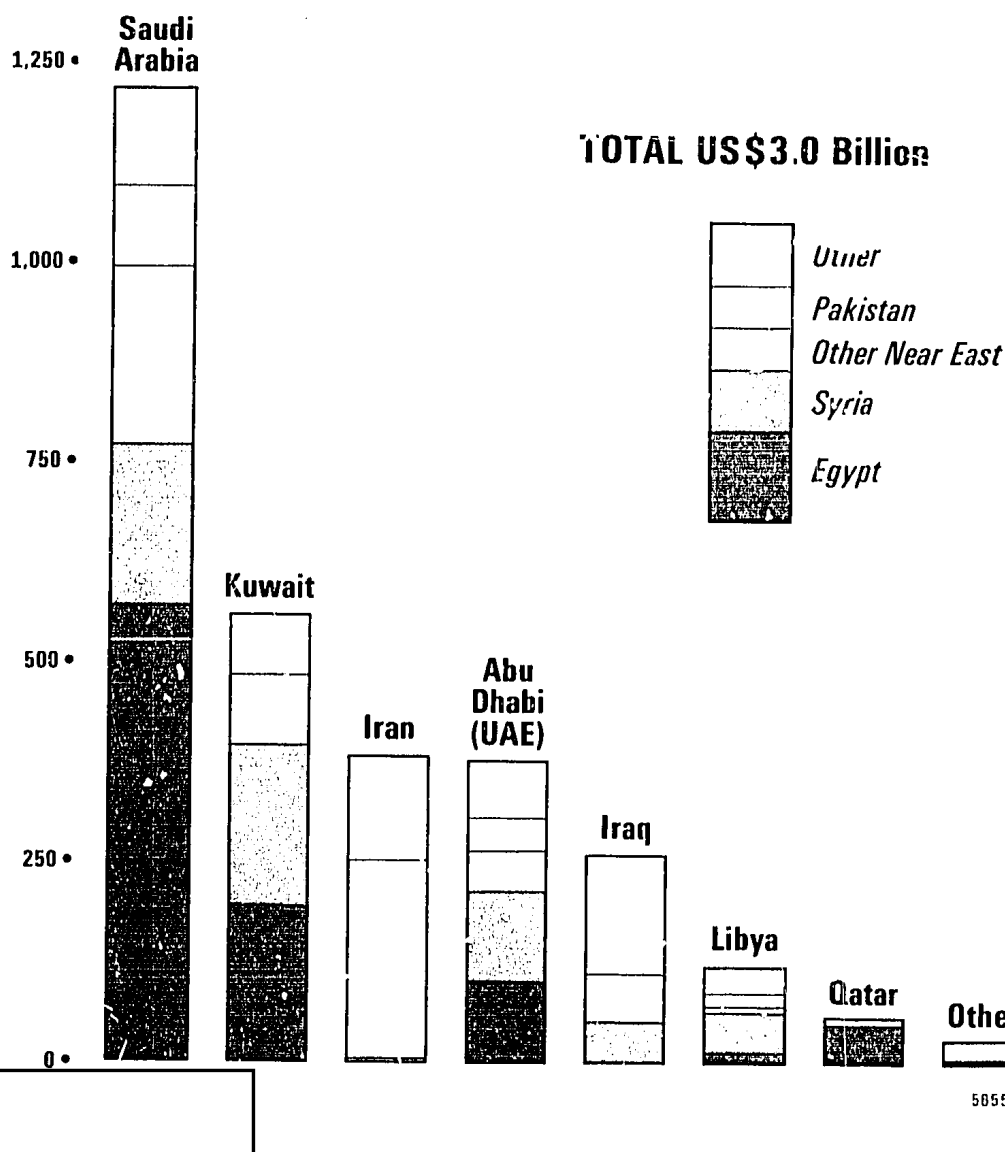
7. Untied aid allows procurement of goods and services in any country.

OPEC: **Bilateral Economic Aid Disbursements to the LDCs, 1974**

FIGURE 2

Million US\$

1,500 •



25X1

585579 4-75 CIA

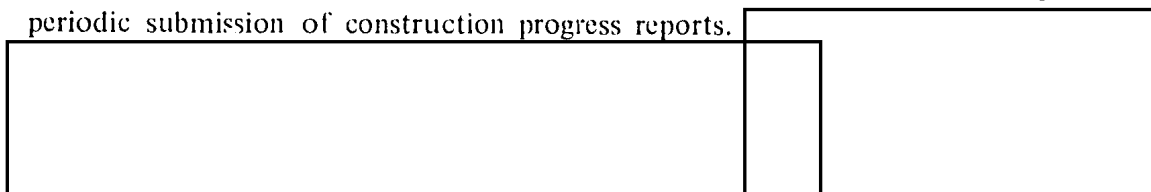
foreign exchange until the world economy can adjust to new oil prices. Infrastructure, agriculture, education, and health services received most of the project allocations. The low rate of transfer on project aid is characteristic of all aid programs and especially so for OPEC disbursements for industrial projects, which were important claimants of 1974 commitments. Even those projects in which oil producers will participate in management and ownership are affected. Feasibility studies for some of these projects are only beginning.

The Transfer Mechanism

8. The Kuwait Fund for Arab Economic Development (KFAED) was the only bilateral development fund in the Arab world until 1971, when Abu Dhabi set up its fund (ADFAED). In 1974, both Iraq and Saudi Arabia set aside impressive amounts of capital to establish national funds for channeling project assistance provided under credits. Given the relative inexperience of OPEC countries in evaluating and administering project aid, combined with the long lead-times required for construction, it will be some time before these funds become effective channels for aid. In most countries, aid is funneled through various administrative structures, including finance and foreign affairs ministries and central banks.

9. Few details are available on OPEC mechanisms to oversee LDC use of cash disbursements. Monitoring apparently varies widely among donors. Iran, Libya, and Nigeria, for example, relied mainly on their ambassadors in the recipient countries to oversee their disbursements. In other instances, special accounts appear to have been set up to keep tab on the when and why of LDC drawings.

10. More formalized accountability is bound to occur, however, as these countries gain experience as donors. The KFAED, serving as a model for the new funds, has actually become a purchasing agent in some instances to assure the proper expenditure of aid. For example, the Fund pays directly for technical services required to perform project feasibility studies. If the proposed enterprise is judged uneconomic, no cost is incurred by the LDC. The Fund also stipulates that its capital is guaranteed against nationalization and sequestration and requires periodic submission of construction progress reports.



25X1

25X1

Secret

Transfers to Multilateral Institutions

11. OPEC provided \$1.8 billion in 1974 to multilateral agencies for eventual disbursement to the LDCs⁸ (see Figure 3 and Table 15). Some \$825 million was paid in as capital subscriptions and other grants, mainly to Arab special funds and regional development banks. An additional \$985 million in seven-year credits at 7% interest was transferred on call to the IMF Oil Facility to help LDCs meet their oil bills. The MSAs, with the most limited alternatives to cover their oil costs, were the largest users of the Facility.

12. Donor rank in multilateral giving tended to reflect the size of oil earnings. Saudi Arabia, Kuwait, Venezuela, and Iran were the largest contributors. Lacking any significant bilateral aid programs prior to 1974, Venezuela used multilateral channels, particularly the IMF, for disbursing the great bulk of its aid in 1974. Algeria and Libya also relied heavily on multilateral institutions as an aid channel. The Shah, especially sensitive to the oil price issue, used the Oil Facility to channel more than 35% of Tehran's aid.

Prospects

13. Total OPEC disbursements in 1975 will increase to more than \$6 billion, assuming no Middle East war or significant change in oil prices. The entire increase will come from \$3 billion in OPEC support to multilateral agencies because of a larger use of the IMF Oil Facility. OPEC disbursements to LDCs through the Oil Facility alone will be at least \$2 billion⁹ in 1975. This amount might be increased through funding other facilities, such as a special concessional aid account within the IMF, now being considered to ease the MSAs burden. The increased support expected from OPEC for multilateral institutions, particularly the IMF, implies that

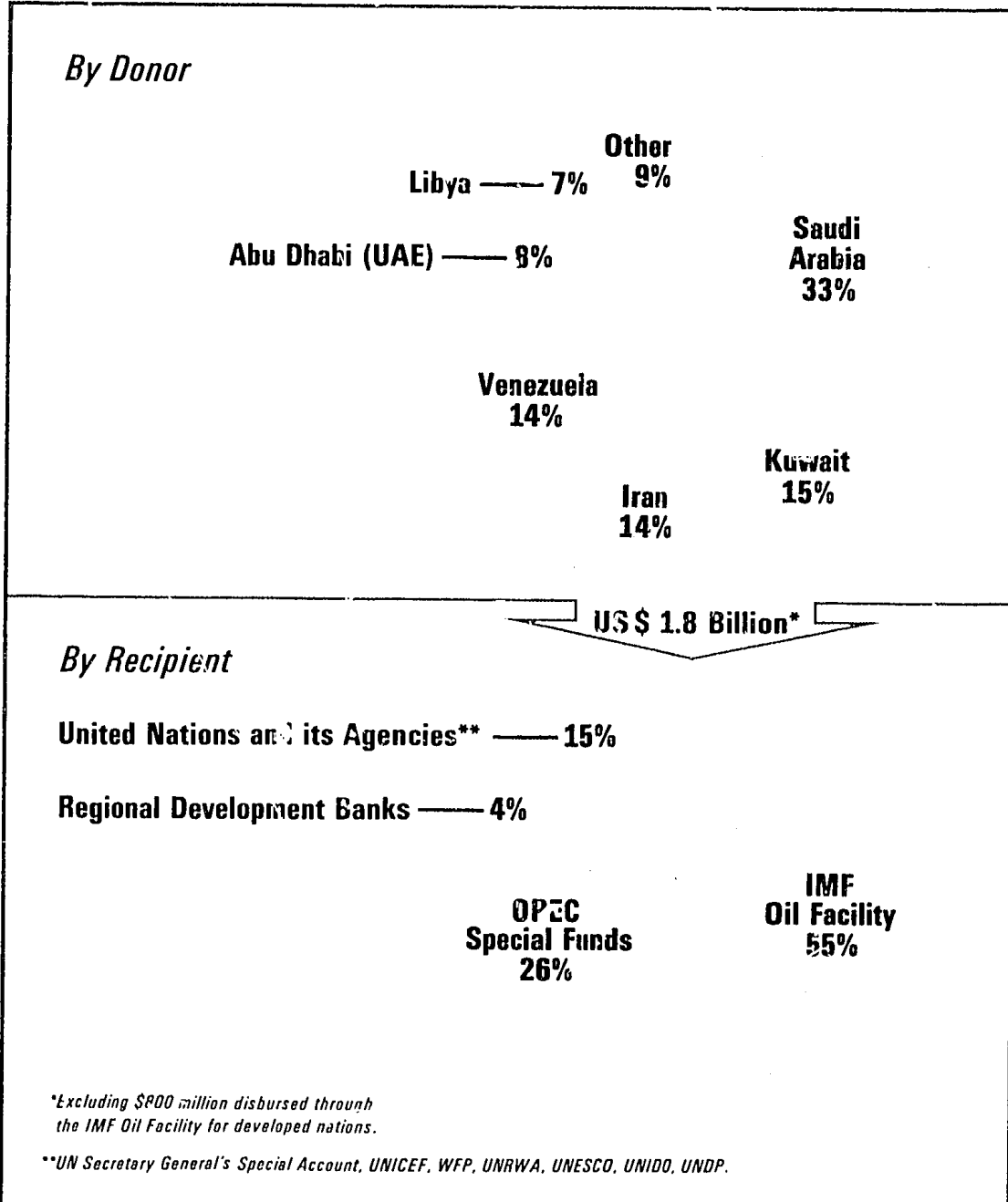
- OPEC aid flows will account for an even larger share of the global aid flow in 1975,
- emergency assistance will increase as a percentage of the total, and
- aid will be more widely distributed, particularly among the MSAs.

8. OPEC pledges to multilateral institutions reached \$5.2 billion in 1974. This includes \$3.2 billion in OPEC pledges to the IMF Oil Facility for drawing by developed and less developed countries.

9. This estimate is based on the assumption that by the end of 1975 the LDCs will draw down most of the Oil Facility's unused pledges (\$1.4 billion) from 1974 and most new pledges. Commitments to the Facility in 1975 are expected to nearly double to as much as \$6 billion, with OPEC's share remaining around \$3 billion.

OPEC:**Aid Disbursements to Multilateral Agencies, 1974**

FIGURE 3



565580 4-75 CIA

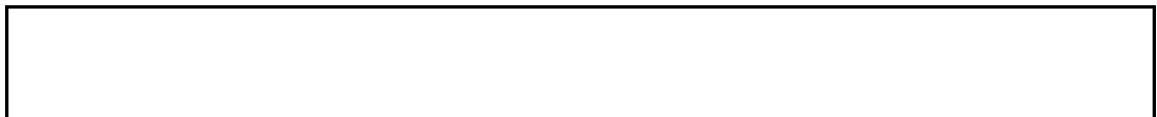
25X1

14. OPEC bilateral aid flows are expected to stay in the \$3.0 billion range in 1975. Disbursements again will be largely emergency aid, transferred as cash. Possibly two-thirds of the disbursements will come from commitments made in 1974 that had not been delivered at the end of the year. Included are

- grants totaling some \$1.3 billion¹⁰ pledged mostly to Egypt, Syria, and Jordan at the Rabat Arab Summit in late 1974;
- other emergency aid totaling about \$300 million; and
- about \$200 million in oil subsidies scheduled for disbursement in 1975.

15. Only small amounts of the \$3-\$4 billion of project aid pledged in 1974 will be delivered in 1975. Drawdowns will be particularly slow because of OPEC's own lack of experience in implementing development programs. OPEC members will find it even more difficult to carry out their growing preference for joint ventures with LDCs that share the same problem. They will have to resort to third parties for know-how and technical capability.

16. New OPEC bilateral aid in 1975 will be significantly below 1974 levels because of OPEC's expanded use of multilateral institutions, particularly the IMF, to channel balance-of-payments assistance. As a result, the emergency component of bilateral aid will be reduced below the 1974 level, with only \$1.0 to \$1.5 billion in cash or for oil subsidies on which immediate delivery can be taken.



Secret

APPENDIX

STATISTICAL TABLES

Table 1

OPEC: Economic Aid Disbursements¹ 1974

Donor	Million US \$	
	Bilateral, to LDCs	To Multilateral Agencies
Total.....	2,992.5	1,807.6 ²
Abu Dhabi (UAE)	375.5	147.0
Algeria.....	11.2	66.6
Iran.....	380.6	257.7
Iraq.....	257.8	63.2
Kuwait.....	557.7	265.8
Libya.....	119.6	131.0
Nigeria.....	3.3
Qatar.....	57.5	15.2
Saudi Arabia.....	1,214.3	601.5
Venezuela.....	15.0	259.6

¹ Including estimated flows of official development assistance and other official aid (excluding bond purchases) as defined by DAC. Direct cash payments to the LDCs which may be used for military procurement and oil subsidies also are included. All private assistance, including credits that are publicly guaranteed, is excluded.

² Excluding \$800 million in OPEC transfers to the IMF Oil Facility for developed countries.

Secret

Next 8 Page(s) In Document Exempt